

Congress of the United States
Committee on the Budget
Washington, DC 20515

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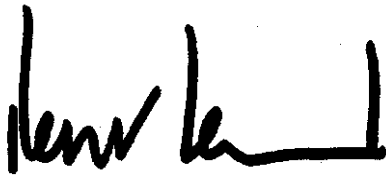
Dear Colleague:

During the presidential campaign, then-Governor Bush decried the fact that "as a percentage of the Gross National Product, our investment in national security is at the lowest point it has been since Pearl Harbor." He made this concern the centerpiece of two speeches: at The Citadel on September 23, 1999, and before the Veterans of Foreign Wars on August 21, 2000. He included the charge on his campaign web site.

When President Bush delivered those speeches, defense spending as a percentage of GNP for both fiscal year (FY) 1999 and FY 2000 was 3.0 percent. Defense spending as a percent of GNP is expected to be 2.9 percent in FY 2001. To increase defense spending gradually to just 3.1 percent of GNP by FY 2005 (the last budget year of Bush's current term) and then maintain that level would require \$650 billion in additional spending *above* the CBO baseline during the 2002-2011 period.

Increased defense spending may well be necessary, but we doubt that there is a consensus in the Bush Administration or in the Congress to devote \$650 billion of the surplus to defense. If the President decides to keep his campaign commitment and raise the level of defense spending as a percent of GNP, the impact on the budget could be enormous. This shows why it is so important to know the entire budget, including the likely level of long-term priorities such as defense spending, before deciding how much of the surplus to allocate to tax cuts.

President Bush has deferred his plans for defense spending until a review of defense strategy and requirements is completed later this year. If we pass his tax cut now (which after factoring in the cost of higher debt interest payments and AMT reform rises from \$1.6 trillion to \$2.2 trillion), we do so without a full understanding of future funding needs for defense. We also run the risk of having defense and other key domestic priorities crowded out. That's why we propose that a third of the surplus be set aside for tax cuts, a third for priorities ranging from defense to education to prescription drugs, and a third for strengthening Social Security and Medicare. The Bush tax cut is simply too big and is being considered too soon to be fiscally responsible.



KENT CONRAD
Ranking Democrat
Senate Budget Committee

Sincerely,



JOHN M. SPRATT, JR.
Ranking Democrat
House Budget Committee